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A contribution to the Outlook for Dairy Products is made by:

MARKET DEVELOPMENT RESEARCH STUDIES
such as

Measurement of Changes in Consumer Purchases

Appraisal of Competing or Substitute Dairy Products

Investigations of Areas of Low Dairy Products Consumption

Market Potentials for Dairy Products

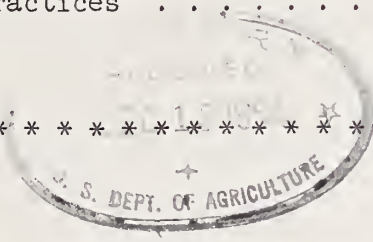
Effect of New Merchandising Practices

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Prepared for the National Outlook Conference, Dairy Work
Session, October 29, 1954, by: The Market Development
Branch, Agricultural Marketing Service, United States
Department of Agriculture.



WHY CONDUCT MARKET DEVELOPMENT RESEARCH? 1/

In the recent reorganization of the Department of Agriculture, expanding markets through research was given greater emphasis by the establishment of an organization to devote its entire resources to this type of market research. This organization is known as the Market Development Branch of the Agricultural Marketing Service, and is designed to cooperate with producer, distributor, and trade groups or other research organizations such as land grant colleges in carrying out research to assist in expanding consumption of agricultural products. Particular emphasis is given to products which are in abundant supply.

The research carried on in this Branch can, of course, play only a part of the entire action of the Department in assisting producing and distributing industries in improving or maintaining their economic position. The approach to research in the Market Development Branch has been to conceive research as a basic tool of management. In this case, management not only of producing and distributing concerns but also for the Department. In addition, in order for management to use this tool effectively, the research conducted necessarily has to be of a type needed and desired by management. This in turn means that after the final results of the research are achieved, such results are recognized by management as having been directed at pertinent problems and eases considerably the transition of research results into effective action.

Market development research must not be viewed as an overnight approach to the solution of agricultural surpluses. On the other hand,

1/ Prepared by Philip B. Dwoskin, Agricultural Economist, Product Development Section, Market Development Branch, Agricultural Marketing Service.

when action is taken in attempting to expand markets--action that is based on marketing research--the results can be predicted with more accuracy and dollars spent can be used more efficiently. An advertising campaign based on the results of research can be expected to produce more results in terms of dollar returns than is true of one not based on research. Merchandising practices adopted after they have been proven by research results are more likely to sell additional goods than is true of practices adopted without the benefit of marketing research. New products placed on the market after thorough market tests are more likely to achieve success in favorable consumer acceptance. Changes in product formulation, such as varying the amounts of nonfat dry milk solids in bread, are less likely to encounter consumer resistance if the new formulations have been tested before they are placed on the market.

Market Development Research on Dairy Products

Per capita consumption of most dairy products (milk equivalent basis) in the United States has declined considerably in the postwar period. The dairy industry and the Department are cooperating to analyze this trend in order to provide the industry with facts which they can use to better know their market and thereby help to increase sales and consumption of dairy products.

One aspect of market development research on dairy products is aimed at rounding out information now available. We have fairly accurate statistics on production of milk on farms and production of manufactured dairy products--but reliable information on consumption of fluid and manufactured dairy products on a more current basis is very meager.

Through this new type research it is hoped that a continuous flow of information will be available to reveal changes in the market more promptly than in the past.

Who Purchases Dairy Products - Knowing Your Market

The Market Development Branch has initiated a comprehensive program of research in the dairy product field in the last few months in cooperation with several dairy industry organizations. A series of reports, financed jointly by the Department and the dairy industry on consumer purchases of selected dairy products each month, has recently been started. The information contained in these reports is based on a representative nationwide sample of approximately 5,800 families--the National Consumer Panel of the Market Research Corporation of America. These families complete weekly pre-printed diaries relative to food and household use item purchases and covering such variables as purchase volume, price paid, brand name, and name and location of retail sales outlet. From these sample reports, estimates are projected to regional and national totals for use in the USDA reports on household purchases of butter, cheese, nonfat dry milk solids, and margarine. These data are designed to assist the industry and the Department in learning who consumes dairy products and at what rate. On a continuing basis, changes are indicated in the market for dairy products as they take place to help the industry in carrying out their campaign of promotion and advertising designed to increase consumption of dairy products.

Series of Monthly Reports Initiated. - To date, five monthly reports have been published in this series--the latest covering the month of August. Some of the major findings as shown in this monthly series are summarized briefly as follows.

Purchases of butter for use in households in the April-August 1954 period have been 6 percent greater than in a comparable period of 1953. Consumers have reported paying about 9 cents per pound, or 12 percent, less for butter in the spring and summer months this year than they did a year ago. Close to 45 percent of all families reported buying butter in August 1954--just under the percentage in August 1953.

By comparison, margarine purchases for household use this year have declined each month during April-August 1954 compared to levels in the months April through August 1953. This decline for margarine--6 percent--was about the same as the reported increase in household use of butter over the period. About 55 percent of all families reported buying margarine in August 1954, 5 percent less than the percentage observed in August a year ago.

Also in the report for August 1954 were estimated purchases during August of over 46 million pounds of cheese, including natural and processed cheese, cheese foods and cheese spreads. Household purchases of cheese have been divided about evenly between the natural and processed types in the five months for which we now have data. In addition, householders have reported purchases of over 30 million pounds of cottage cheese (not included in the 46 million pound total mentioned above) each month in the April-August 1954 period. This survey also shows that almost 60 percent of all U. S. families buy some type of natural or processed cheese each month.

The home market for nonfat dry milk solids, although a relatively small part of the total market, accounted for about nine and one-half million pounds each month for the last few months. Consumers buying this product reported paying slightly more than 35 cents per pound in the April-August period.

Quarterly reports include information on regions and outlets.-

Supplementing these monthly reports, the first quarterly report in this series has just been released giving purchase volume information on butter, cheese, nonfat dry milk solids, and margarine by regions and retail sales outlet. This report, for the April-June 1954 quarter, shows among other things, that per capita consumption of butter in Southern households is less than a third of the U. S. average. Also of interest is the reported usage of margarine in the South--lower than in any other region of the country. Estimated cheese purchases during the quarter show the best market for the special varieties of natural cheese--Swiss, cream, and "other"--was in the Northeast. The Pacific region reported household purchases, per capita basis, of natural American and cottage cheese far above those of any other geographic area, while the Mountain-Southwest region reported the lowest purchase rates for these types of cheese. The quarterly report also shows that less than 20 percent of all American families made a purchase of nonfat dry milk solids during the April-June quarter.

Data have also been obtained on consumer purchases of butter and margarine during April-September 1947 and April-September 1953. These data show where and to what degree the shifts have taken place in the consumption of these products from 1947 to 1953 by regions, size of community, and selected family characteristics. For example, the data indicate that although the percentage of families buying butter in the South changed very little from 1947 to 1953, this region showed the largest increase in the percentage of families buying margarine over this period. The percentage of farm families buying margarine doubled

from 1947 to 1953, but the percentage of farm families buying butter showed almost no change. The data for 1947 and 1953 also show that housewives under 35 years of age reported the largest drop in the per capita use of butter from 1947 to 1953, but that the older housewives, 45 years and over, reported the largest gain in the per capita use of margarine.

Accumulation of data will provide a basis for additional analysis.-

In addition to these reports discussed, data will be forthcoming for a 6-month period of 1954 giving breakdowns by regions, size of community, and family characteristics. This will be presented with comparisons relative to the 1953 data to show changes in consumption patterns over the past year. This information will give the dairy industry and other interested parties better insight into the character of the market for the specified dairy products and margarine. As the series of data increases over time, its analysis through comparisons with back months will become more valuable. Information can be gained concerning shifts in purchases by householders over time, and additional information can be gained concerning the relationship between price and volume of purchase. Seasonal changes in patterns of purchase can also be noted. As time goes on, these purchase data will be compared with total disappearance information available in the Department to indicate the relative amount going into household channels.

The end result of this particular research endeavor should help the dairy industry in designing and redirecting their promotional and advertising efforts. The Department will also be better able to appraise the effectiveness of its various dairy programs.

Effect of Changes in Merchandising and Promotional
Activities on Sales of Milk in One Market

Study prompted by declining milk sales.- Two studies were conducted in Memphis, Tennessee in 1952 and 1953. Consumption of fluid milk had been going down in Memphis for several years; in fact, from October 1950 through October 1952, sales of milk in the Memphis area had dropped 15 percent. During the same period, the retail price had increased about 4 cents per quart. To find out some of the reasons for this decline in milk consumption a study of the Memphis market was made in the fall of 1952. Personal interviews were made with a representative cross-section of about 600 households. In addition, an analysis of sales in the entire market was made. Not only was the pattern of use of milk in Memphis studied but also the relationship of use of fluid milk to nonfat dry milk solids. A report on this study was published in May 1953. 2/ It was found that the decline in fresh fluid milk sales was partially brought about by substitution of nonfat dry milk solids for fluid milk. Equally important factors in the decline of fluid milk sales in Memphis were the increased price of fluid milk, price differential between paper and glass containers, and a municipal ordinance eliminating the sale of one-third-quart containers.

2/ Dwoskin, Philip B., Milk Products: Consumer Purchase Patterns and Use. Marketing Research Report No. 39. Bur. Agr. Econ., U. S. Dept. Agr. Washington, D. C., May 1953.

Second study prompted by drop in milk prices and other changes in the market.- During the period October 1952 to October 1953 a number of changes took place in the market. The rising price for fluid milk was reversed, with several price decreases. Increased promotional activities and changes in merchandising practices occurred. In fact, so many things had taken place in the market that it was felt that a new consumer survey should be undertaken in order to see the effect of these changes on consumption of fluid milk. During the fall of 1953 another study was undertaken. The report on this study, entitled "Changing Patterns of Milk Consumption in Memphis, Tennessee" has just been released. 3/

During 1953 the price differential between homogenized and regular milk was eliminated. The differential between paper and glass containers was eliminated and there was increased promotion of half-gallon containers. Each of these changes in merchandising practices was followed by increased sales of the product involved. The proportion of milk sold in homogenized form increased. The proportion of milk sold in paper increased and the proportion of milk sold in large containers increased considerably.

Consumers reported considerable increases in household consumption of milk; in fact, the consumers interviewed in 1953 indicated an increase of almost one quart per family per week over what they had been consuming a year earlier. Although the number of families consuming nonfat dry milk solids had increased from 19 to 26 percent between 1952

3/ Dwoskin, Philip B., Bayton, James A., and Hoofnagle, W. S. Changing Patterns of Milk Consumption in Memphis, Tenn. Marketing Research Report No. 69. Agr. Mktg. Service, U. S. Dept. Agr. Wash., D. C.

and 1953, the amount of dry milk used per family dropped about a quart a week on a fluid equivalent basis. The consumption increases apparently were not due entirely to the price declines, for few homemakers said they knew the prices had dropped. On the other hand, most of the homemakers were cognizant of the fact that fluid milk had been rather intensively promoted during the year. The study clearly indicates that promotional efforts are essential if maximum sales of milk are to be obtained.

In 1953 homemakers were asked additional questions about the use of butter and oleomargarine. Few homemakers said they would use more oleomargarine if the price went down, but most homemakers said that they would use more butter if the price declined. It should be pointed out that this was before the recent declines in retail prices of butter resulting from reduction of support prices.

These studies in Memphis have been carried out in cooperation with the producers association and the distributors in the market. The results have been presented in detail to the Executive Committee and the members of the producers association and to all the distributors in the market. The results are being used to assist in expanding further the per capita consumption of milk in the Memphis market.

Discovering Areas of Low Consumption

Another study recently gotten underway is a project designed to point out areas where consumption of milk and dairy products might be increased. The first phase of the study is to take all of the data available from as many sources as can be found and then putting these data together to find areas of low consumption and the reasons for low

consumption in such areas. The purpose is to find those areas where it is most likely that increased consumption can be effected. In this analysis data are being used from private research organizations, information obtained from the consumer panel contract, data obtained from several years' research by the Division of Home Economics and Human Nutrition on food consumption, information from all of the Federal markets on total sales of milk and their relation to practices carried out in the markets, and all other types of data which we find on milk consumption, including those available from private distributors.

As a corollary to this study an appraisal of the various merchandising practices carried on in the Federal order markets is being made insofar as secondary data are available. For example, a comparison is being made of the consumption of milk in markets where half gallons are sold and in those where half gallons are not available. Another aspect will be to study the price relationships between paper and glass containers of milk and between homogenized and regular milk in these markets, to see whether there is some relationship between consumption and the various merchandising practices in operation in particular markets.

After these studies are complete, it may be desirable to carry out certain experiments in selected markets to find out whether consumption can be increased by changing merchandising practices. The only way that this can be measured is to experiment with these changes in selected markets to find out the effect which they have on consumption. This will be a natural sequel to the series of studies designed to find these areas of low consumption. In this analysis relating consumption

levels to the merchandising practices, something can be learned about the kinds of practices carried out in areas of low and high consumption and then test some of these practices in certain markets.

Will Increased Availability Increase Sales

The whole problem of availability of milk to consumers has been a worrisome one to the industry and to others. In cooperation with the American Dairy Association, a study has been initiated to determine some of the factors that influence consumption which are related to the availability of milk. The objective of this study is to evaluate the effect of the use of retail vending machines, one facet of availability, on the total sales of fluid milk in selected cities. This study will provide an indication as to whether the use of such machines results in an increase in the total sales of milk in a market area or merely results in a switch from established outlets to the new vending outlets. This research should also be helpful in indicating the kind of location which offers the greatest potential from the standpoint of increasing sales, that is, factory, office building, school, apartment building, and outdoor locations, as well as the most popular size container by kind of location--one-half pint, one-third quart, pint, quart, or half gallon.

Research on Merchandising Practices

Plans for a study have been recently initiated to determine the effects of in-store and point-of-sale merchandising, including varying methods of packaging, displaying, and pricing, on sales of and consumer demand for butter. In our effort to maintain producer's incomes, the

Department has been purchasing substantial quantities of butter. While the per capita consumption of butter has declined in the last few years, the opposite situation has prevailed for its chief competitor--oleo-margarine. A part of this decline in the consumption of butter might be attributed to the lack of an aggressive and up-to-date merchandising program for the product.

Another study recently initiated is designed to appraise the effect of different methods of merchandising cheese such as size of package, methods of display, and appearance as affected by in-store packaging versus pre-packaging of cheese on sales of cheese. The work on this study is already under way in selected retail outlets in one large metropolitan area. The types of cheese undergoing merchandising tests are presently limited to mild and sharp cheddar cheese. If these tests prove successful, they will be expanded to include other cheese varieties. A controlled experimental design is employed so that the short-run effectiveness of the different merchandising methods can be scientifically evaluated.

PUBLICATIONS

The following publications are available for distribution and can be obtained by writing to the Market Development Branch, Agricultural Marketing Service, U. S. Department of Agriculture, Washington 25, D. C. For those studies not yet published, persons interested in obtaining such future publications may do so by writing to the above address indicating the particular study report desired.

Consumer Panel Studies:

Household Purchases of Butter, Cheese, Nonfat Dry Milk Solids, and Margarine. This is a monthly series of reports beginning with April 1954.

Household Purchases of Butter, Cheese, Nonfat Dry Milk Solids and Margarine by Regions and Retail Sales Outlets, April-June 1954.

This report is the first of a series of quarterly reports and is available for distribution.

Household Purchases of Butter and Margarine by Regions, Size of Community and Family Characteristics for the April-September periods 1947, 1953, and 1954. (In addition, this report, when published, will contain data on household purchases of cheese and nonfat dry milk solids for April-September 1954 only.)

Market Studies:

Milk Products: Consumer Purchase Patterns and Use, Memphis, Tenn. Marketing Research Report No. 39, May 1953.

Changing Patterns of Milk Consumption in Memphis, Tenn. Marketing Research Report No. 69, October 1954.

